

Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 SP-02 AID-05 EB-07 NSC-05 CIEP-01

TRSE-00 SS-15 STR-04 OMB-01 CEA-01 PA-01 PRS-01

USIA-06 CIAE-00 COME-00 FRB-03 INR-07 NSAE-00 XMB-02

OPIC-03 LAB-04 SIL-01 OFA-01 /083 W

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R 241500Z NOV 75

FM AMEMBASSY REYKJAVIK

TO SECSTATE WASHDC 5806

INFO COMICEDEFOR

CINCLANT

USMISSION EC BRUSSELS

AMEMBASSY COPENHAGEN

AMEMBASSY HELSINKI

AMEMBASSY OSLO

USMISSION OECD PARIS

AMEMBASSY STOCKHOLM

USMISSION NATO

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E.O. 11652: N/A

TAGS: EFIN IC

SUBJECT: ICELAND INCREASES FOREIGN BORROWING

1. SUMMARY. CENTRAL BANK ANNOUNCED SIGNING OF A 3-YEAR CREDIT WITH EUROPEAN BANK GROUP FOR \$45 MILLION TO BACKSTOP ICELAND'S NEGATIVE FOREIGN RESERVE POSITION. WHILE CENTRAL BANK CALLING FOR AUSTERITY, ALSO ANNOUNCED, BUT BY FINANCE MINISTER WAS \$13 MILLION LOAN FROM KUWAIT WHICH EMBASSY UNDERSTANDS WILL GO FOR POWER, FISHING BOATS, AND ALLEGEDLY FOR A NEW SKI LIFT. (DETAILS ON BANK LOAN AIRPOUCHED TO EUR/NE).

2. BACKGROUND. IN NOVEMBER, ICELAND'S CENTRAL BANK SIGNED A STANDBY CREDIT WITH A BANKING CONSORTIUM FOR A \$45 MILLION BACKUP

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OF ITS INTERNATIONAL RESERVES. THE CREDIT IS REPAYABLE IN THREE

YEARS ON AMOUNTS BORROWED, AT LONDON INTERBANK RATE. THE BANK ANNOUNCED THE LOAN WAS NOT FOR PROJECTS BUT TO PROTECT ICELAND'S FINANCIAL REPUTATION. IN ITS ANNOUNCEMENT THE BANK REVIEWED ICELAND'S SORRY ECONOMIC SITUATION, BLAMED GOVERNMENT SPENDING FOR MUCH OF THE PROBLEM AND CALLED FOR GENERAL BELT TIGHTENING.

3. TREASURY LOAN. THE INK ON THE ABOVE LOAN WAS HARDLY DRY WHEN THE MINISTER OF FINANCE ANNOUNCED A \$13 MILLION LOAN FROM KUWAIT TO FINANCE NECESSARY PROJECTS. FURTHER DETAILS WERE NOT MADE PUBLIC.

4. EMBASSY COMMENT. GOI SOURCES TRYING TO PUT BEST FACE ON NEW TREASURY LOAN POINTED OUT THAT IT HAD BEEN IN THE WORKS SINCE APRIL. IT IS EXPECTED TO BE USED TO FINANCE VARIOUS PROJECTS AND PURCHASES SUCH AS THE KRAFLA POWER PROJECT AND MORE FISHING TRAWLERS. THE LATTER IS A HIGHLY CONTROVERSIAL TOPICS, SO IT IS NOT SURPRISING THE GOI HAS NOT ANNOUNCED THE DISPOSITION OF THE LOAN. MOREOVER, IT HAS BEEN CHARGED BY SOCIAL DEMOCRATIC PARTY CHAIRMAN, A MEMBER OF BOARD OF DIRECTORS OF ECONOMIC DEVELOPMENT INSTITUTE, THAT ONE PROJECT INCLUDED IN THE LOAN IS AN ADDITIONAL SKI LEFT FOR THE CITY OF REYKJAVIK.

IRVING

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Message Attributes

Automatic Decaptioning: X
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Current Classification: UNCLASSIFIED
Concepts: BANK LOANS, CONSORTIUMS, CREDIT AGREEMENTS, RESERVE DATA (FINANCIAL)
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Draft Date: 24 NOV 1975
Decaption Date: 01 JAN 1960
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Disposition Date: 28 MAY 2004
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Disposition History: n/a
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